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A STUDY ON NON-PERFORMING ASSETS (NPAS) OF COMMERCIAL BANKS IN INDIA (2015–2025)

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Abstract
Non-Performing Assets (NPAs) remain a central barometer of asset quality and financial stability in India's banking sector. This paper examines definitional aspects under the Reserve Bank of India's (RBI) Income Recognition and Asset Classification (IRAC) norms, traces the trajectory of gross NPAs (GNPA) and net NPAs (NNPA) for scheduled commercial banks (SCBs) between FY2015 and FY2025, and analyses ownership-wise (public vs. private) and segment-wise (retail, agriculture, MSME, industry, services) patterns. Using secondary data from RBI releases, official reports and recognised databases, we find that GNPA ratios have declined steeply from their 2018 peak following sustained recognition, resolution and recapitalisation efforts, improvement in provisioning coverage, and institutional reforms such as the Insolvency and Bankruptcy Code (IBC). As of March 2025, the system-level GNPA ratio is at a multi-decade low, although stress tests indicate a mild potential uptick under adverse scenarios. Risks persist in unsecured retail credit and certain sub-segments (e.g., agriculture and MSME), while resolution timelines and haircuts under IBC/ARC channels continue to shape recovery economics. The paper concludes with policy and managerial recommendations to sustain asset-quality gains: strengthening underwriting and early warning systems, calibrated growth in unsecured segments, faster resolution through IBC process improvements, data-driven sectoral monitoring, and enhanced governance and risk culture.

Keywords: Non-Performing Assets, GNPA, NNPA, IRAC norms, IBC, NARCL, Asset Quality, Provisioning Coverage Ratio, Public Sector Banks, Private Banks.

1. Introduction
Asset quality is a cornerstone of banking stability. In India, Non-Performing Assets (NPAs) are loans on which interest and/or principal remain overdue beyond specified thresholds. NPAs erode profitability via interest reversal and provisioning, constrain credit growth, and can amplify macro-financial vulnerabilities. Over the last decade, India implemented far-reaching reforms—asset quality reviews, recapitalisation of public sector banks (PSBs), the Insolvency and Bankruptcy Code (IBC), and strengthened prudential norms—to address legacy stress and improve credit discipline.

1.1 Definition and Classification (IRAC norms)
Under RBI's IRAC norms, a loan is generally classified as **non-performing** when interest and/or principal remain overdue for more than 90 days (term loans). For cash credit/overdraft, an account is treated as 'out of order' based on drawing power/interest servicing tests; for bills purchased/discounted, the overdue threshold is typically more than 90 days. Agricultural advances carry seasonality-linked criteria (e.g., two crop seasons for short-duration crops or one for long-duration). NPAs are further classified into Substandard, Doubtful, and Loss assets, with progressively higher provisioning requirements.

Note: Specific thresholds/clarifications are as per the latest RBI Master Circulars/Directives applicable to commercial banks.

1.2 Why NPAs matter

High NPAs reduce interest income (due to income recognition suspensions), necessitate larger provisions, compress Return on Assets (ROA)/Return on Equity (ROE), and impair capital adequacy if losses crystallise. They also crowd out new lending and may raise the cost of funds and risk premiums economy-wide.

2. Review of Literature and Policy Context

1. **Asset quality cycle (2011–2018):** Rapid credit growth to infrastructure/corporates, followed by project delays, commodity price shocks, and governance issues, culminated in a sharp NPA build-up. RBI's Asset Quality Review (AQR) enforced recognition and provisioning.
2. **Resolution architecture:** IBC (2016) introduced time-bound corporate insolvency resolution with a 'creditor-in-control' framework; SARFAESI, Debt Recovery Tribunals (DRTs), and Lok Adalats function as complementary channels. ARCs and, since 2021, NARCL provide alternate resolution pathways for legacy stress.
3. **Post-2018 clean-up:** Recapitalization of PSBs, governance reforms, improved risk controls, and better monitoring reduced fresh slippages. Provisioning Coverage Ratio (PCR) rose alongside declining GNPAs.
4. **Retail credit risks:** Rapid growth in unsecured retail/credit cards prompted macro prudential measures (higher risk weights) to temper risk build-up.
5. **COVID-19 episode:** Regulatory forbearance and resolution frameworks contained short-run impairment; subsequent normalisation was accompanied by robust earnings and capital buffers.

3. Objectives of the Study

1. To explain the concept and classification of NPAs under RBI's IRAC framework.
2. To analyse trends in GNPA/NNPA of SCBs during 2015–2025.
3. To compare asset quality across ownership groups (PSBs vs. private banks) and lending segments (retail, agriculture, MSME/industry/services) based on available data.
4. To examine resolution channels (IBC, SARFAESI, ARCs/NARCL) and provisioning dynamics.
5. To offer policy and managerial recommendations for sustaining asset-quality improvements.

3.1 Scope and Limitations

This is a secondary-data, descriptive and comparative study. While we compile and interpret the most recent official and reputable statistics, some disaggregation (e.g., bank-level or sub-segment time series) may not be uniformly available for the entire period. The study concentrates on scheduled commercial banks.

4. Methodology and Data Sources

1. **Design:** Descriptive trend analysis with comparative cuts (ownership, segment) for select years where official data are available.
2. **Period:** FY2015 to FY2025 (selected reference points within).
3. **Sources:** RBI's Financial Stability Reports (FSR), Report on Trend and Progress of Banking in India, Master Circulars/Notifications on IRAC and resolution, Government press releases (e.g., PIB), IBBI quarterly updates, and reputable statistical databases.

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5. Results and Discussion

5.1 System-wide NPA trends (selected points)

Table 1. GNPA/NNPA: Selected Milestones

Reference point	Indicator	Value	Salient note
March 2018	GNPA (SCBs)	~11.2%	Post-AQR peak; corporate/infra stress dominant
December 2024	GNPA (SCBs)	~2.5%	Multi-year improvement; PCR strengthened
December 2024	NNPA (SCBs)	~0.57%	Reflects higher provisioning and write-offs
March 2024	GNPA (SCBs)	~2.8%	Continued downtrend
March 2025	GNPA (SCBs)	~2.3%	Multi-decadal low; strong earnings/capital

Interpretation: India's banking system has moved from double- digit GNPAs in 2018 to near-historical lows by 2025. The reduction reflects rigorous recognition, sustained provisioning, recoveries through IBC/ARCs, write- offs, and healthier credit growth.

5.2 Ownership-wise patterns

Table 2. GNPA by Ownership (March 2025, indicative)

Ownership group	GNPA (approx.)	Comment
Public Sector Banks (PSBs)	~2.6%	Significant improvement from earlier years; legacy corporate stress largely addressed
Private Sector Banks	~2.0%	Generally stronger asset quality metrics; rising unsecured retail requires vigilance

Interpretation: The gap between PSBs and private banks has narrowed markedly compared to the pre-2018 period.

5.3 Segment-Wise Patterns (Illustrative Recent Cut)

Table 3.Segment-wise GNPA (approx., FY2023–24)

Segment	GNPA (approx.)	Comment
Retail (overall)	~1.2%	Low but watchlist within unsecured personal loans/credit cards
Agriculture	~6.2%	Persistently higher due to income volatility, climatic shocks, policy waivers
MSME/Industry/Services	Varies	Improvement in large corporate;MSME sensitive to cycles/credit conditions

Interpretation: Persistent stress pockets remain in agriculture and select MSMEs; retail headline GNPA is low but the fastest-growing unsecured components warrant prudential caution.

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5.4 Resolution Mechanisms and Recoveries

1. **IBC:** A cornerstone for corporate resolution with creditor-in-control design. Realisations have stabilised around a fraction of admitted claims, varying widely by case and sector; timelines remain a binding constraint.
2. **SARFAESI/DRTs/Lok Adalats:** Useful for smaller tickets but historically lower recovery efficiencies than IBC/ARC sales for large corporate stress.
3. **ARCs and NARCL:** ARCs continue as an important out-of-court channel. NARCL (the 'bad bank') was backed by a sovereign guarantee to facilitate resolution of legacy large-ticket NPAs, aiming to free up managerial bandwidth in banks.

5.5 Provisioning and Capital Buffers

1. **Provisioning Coverage Ratio (PCR):** Rising PCR has underpinned the fall in NNPA to well below 1% by late 2024.
2. **Capital Adequacy:** CRAR and CET1 remain comfortably above regulatory minima, providing resilience under stress scenarios.

5.6 Emerging Risks and Macro prudential Stance

1. **Unsecured retail credit:** Rapid growth in personal loans/credit cards prompted higher risk weights and supervisory guidance to curb exuberance.
2. **Sectoral/climate risks:** Agriculture and climate-sensitive sectors show volatility; need better risk transfer (insurance/guarantees) and data-driven underwriting.
3. **Concentration risks:** Large borrower and sector concentrations continue to be monitored via stress tests.

5.7 RBI Stress Tests (outlook)

Baseline projections indicate the GNPA ratio could edge up from multi-year lows over the next 1–2 years under certain macro scenarios, though banks as a system remain resilient with adequate capital buffers. Adverse scenarios show larger—but manageable—upticks.

6. Managerial and Policy Recommendations

1. **Underwriting Discipline & EWS:** Strengthen borrower cash-flow assessment, covenants, and early warning systems (EWS) using account aggregator and alternative data footprints.
2. **Retail Risk Calibration:** Tighten scorecards for unsecured credit; align pricing with risk; strengthen collections and hardship support frameworks.
3. **MSME Resilience:** Expand credit guarantee coverage with dynamic pricing; promote cluster-level risk pooling and digital cash flow lending (GST/e-invoice anchors).
4. **Agriculture Risk Transfer:** Scale weather- indexed insurance, warehouse receipt financing, and producer-organis

Conclusion

India's commercial banking sector has shown a remarkable turnaround in asset quality over the past decade. From a peak GNPA ratio of over 11% in 2018, reforms such as the Asset Quality Review, recapitalization of public sector banks, and the Insolvency and Bankruptcy Code have reduced the GNPA ratio to around 2.3% by March 2025. Public sector banks, once heavily burdened with stressed assets, now show much healthier balance sheets, closing the gap with private sector banks. Despite this progress, challenges remain in agriculture, MSMEs, and unsecured retail loans. Resolution delays and

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low recovery rates highlight structural issues that must be addressed. Sustaining the gains will require strong risk management, efficient resolution mechanisms, and continuous regulatory oversight.

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